



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

## THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

The Honorable John Warner  
Chairman, Committee on Armed Services  
United States Senate  
Washington, DC 20515

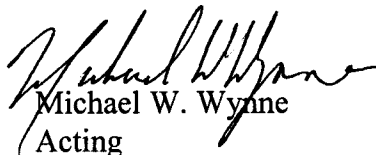
Dear Mr. Chairman:

I am very pleased to provide you with a report on the business transformation efforts at the Department of Defense (DoD), spearheaded by the Business Management Modernization Program. This report is submitted in response to the reporting requirements of 10 U.S.C. 2222(i), as added by section 332 of Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act (NDAA) for Fiscal Year 2005.

The need to transform business operations that support the warfighter while achieving financial accountability is the focus of the BMMP. The BMMP will define and implement DoD enterprise-level capabilities that serve as transformation catalysts. Furthermore, BMMP will enable and continuously improve financial accountability across the Department. We plan to accomplish these objectives by relying on three key principles: clear standards, clear lines of authority, and tiered accountability. Details of our plan are outlined in the enclosed report.

The leadership of this program is committed to a course of action that provides our military with the state-of-the-art, interoperable business systems they deserve. Our commitment is a reflection of the firm resolve and leadership of the Secretary of Defense. On his behalf, I offer that same commitment to work closely with you as we strive together to provide world-class business operations to our Armed Forces wherever they are called to serve.

Sincerely,

  
Michael W. Wynne  
Acting

Enclosure:  
As stated

cc:  
The Honorable Carl Levin  
Ranking Member



**Annual Report  
to  
Congressional Defense Committees**

***Status of the Department of Defense's  
Business Management Modernization Program***

*Presented as per "Ronald W. Reagan National Defense Authorization Act for  
Fiscal Year 2005" (P.L. 108-375)*



**March 15, 2005**

**Office of the Under Secretary of Defense for  
Acquisition, Technology, & Logistics**

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## **I. PURPOSE OF THIS REPORT**

This report is submitted in response to the reporting requirements of 10 U.S.C. 2222(i), as added by section 332 of Public Law 108-375, the Ronald W. Reagan National Defense Authorization Act (NDAA) for Fiscal Year 2005. It directs the Secretary of Defense to provide the congressional defense committees with an annual report on the Department's Business Management Modernization Program (BMMP). The law directs that "the first report shall define plans and commitments for meeting requirements of subsection (a), including specific milestones and performance measures." The report is to be submitted by March 15 of each year, from 2005 through 2009.

## **II. EXECUTIVE SUMMARY**

Faced with the dynamic challenges of a changing national security environment, the Department of Defense (DoD) has engaged in aggressive transformation of its warfighting capabilities. This transformation has been guided by the need to develop more agile, mobile, and flexible forces that can act with great speed and precision at a moment's notice throughout the world. Transformation requires new approaches to military tactics, communications, force structures, training, and weapons systems, with complimentary changes to the core business missions that provide human resources, material, and financial support to the warfighters. As stated by Secretary Rumsfeld on September 10<sup>th</sup> 2001,

"Our challenge is to transform not just the way we deter and defend, but the way we conduct our daily business. Let's make no mistake: The modernization of the Department of Defense is a matter of some urgency. In fact, it could be said that it's a matter of life and death, ultimately, every American's"

This urgent need to modernize and transform the business operations of the Department of Defense is the impetus behind the Business Management Modernization Program (BMMP).

BMMP is intended to drive greater innovation and higher levels of efficiency throughout the Business Mission Area of the Department. This will be achieved through the implementation of DoD enterprise-level capabilities that will serve as transformation catalysts to accelerate broader, Department-wide improvements in business processes and information systems, while enabling financial accountability. We plan to accomplish this purpose by relying on three principles: clear standards, clear lines of authority, and tiered accountability. This, in turn, will provide both oversight and insight into defined capabilities, enterprise-wide acquisitions, and control of IT investments.

This strategy corresponds directly to the three main objectives of the program, which are incorporated in the BMMP operating structure and governance model. The first objective is to define the future capabilities necessary to support the warfighter, and focus the activity of business systems modernization on acquiring those capabilities. The second objective is to define and declare capabilities that should be common throughout the DoD business enterprise and direct the implementation of enterprise-wide systems with greater visibility at the highest levels of leadership within the Department. The third objective is to control current and future

investments in business systems, through the governance of the Defense Business Systems Management Committee (DBSMC) and Investment Review Boards (IRBs).

The Department's senior leadership has endorsed an Integrated Product Team (IPT) mechanism for the BMMP, which ensures responsibility and tiered accountability. This program optimizes previous architectural work, focuses more intently on enhancing DoD enterprise-wide business capabilities and is now realigned to facilitate, at each level of responsibility, the implementation of measurable capabilities aligned to support the warfighter. In realigning the BMMP to this new structure, the Department has also established new governance.

### **III. BMMP ACHIEVEMENTS**

The BMMP has enabled significant understanding of the complexity of Department of Defense business processes and systems across the services, agencies, and combatant commands. We believe the work forms a foundation of information required to define quickly and implement transformative DoD-wide business capabilities on a rapid schedule. Specific achievements of the program are listed below.

#### **A. ENABLED INCREASED VISIBILITY AND UNDERSTANDING OF DoD BUSINESS SYSTEMS**

As a result of architecture development activity, process mapping, and efforts to create an inventory of existing business systems, the program has gained greater visibility into information systems in use across the services, agencies, and combatant commands to support a variety of business processes. DoD has also improved the accuracy of its business systems inventory. For example, a standard definition of a "business system" is now used to ensure a consistent inventory, correcting previous irregularities. Also, business systems are being recorded in a single repository, the DoD Information Technology Portfolio Data Repository (DITPR).

#### **B. CREATED DATA STANDARDS AND STRATEGIES**

DoD recognizes that the absence of adequate data standards has led to significant costs in developing and managing point-to-point systems interfaces. This problem has also hindered enterprise-wide visibility into financial, supply chain, and human resource data, and has created barriers to systems consolidation. BMMP has begun efforts to establish data standards that will improve system interoperability and data transparency while reducing system implementation costs in the future.

The program has defined and published an initial Standard Financial Information Structure (SFIS) that standardizes the coding of financial data. Upon deployment, SFIS will enable financial transaction traceability within information systems supporting personnel, materiel, and financial management processes. SFIS enables interoperability among various DoD organizations and is the foundation for the Department's financial systems. These SFIS standards are captured in the enterprise architecture to ensure uniform, Department-wide application. Further benefits of standardized financial data include the ability to capture standard information (i.e., capital purchases vs. expenses), the ability to capture programmatic costs (i.e.,

cost of conducting operations in Iraq), and the ability to ensure that financial obligations match associated disbursements – all resulting in more timely and accurate financial information.

The program has begun the definition of standard unique identifiers for tracking equipment, supplies, property, leases, and people – to better enable physical and financial accountability. Some of these are currently reflected in the Business Enterprise Architecture (BEA), with the remainder scheduled for the September 2005 BEA release. A net-centric strategy has been developed to guide the implementation of authoritative information sources for these data.

#### C. IDENTIFIED REQUIREMENTS FOR FINANCIAL COMPLIANCE

The program has analyzed 145,000 requirements from legislation, regulation and policy to identify those relevant to financial compliance. It has also translated these requirements into implementable business rules to guide future systems development efforts as well as provided a reference library for efforts to prepare the Department for future financial audits.

#### D. DEVELOPED THE BUSINESS ENTERPRISE ARCHITECTURE (BEA)

The BEA provides a blueprint for the DoD's future business processes, data and technology. While the BEA, in and of itself, does not transform DoD, it provides the foundation for future transformational efforts. In particular, it provides a common language and framework to be used across DoD's services and agencies as they develop transformation programs. It also provides the services and agencies with an understanding of DoD's future enterprise processes, systems and information flows so that their transformation efforts are consistent with the enterprise plans.

#### E. DEVELOPED THE FOUNDATION FOR THE BUSINESS MISSION AREA (BMA) TRANSITION PLAN

BMMP developed the Transition Plan framework for the Business Mission Area. This framework links the strategic goals to business capabilities and systems modernization initiatives. It identifies the information needed for the Transition Plan to be delivered by September 2005, clearly delineating what is known now and what must be decided over the next six months.

#### F. IMPROVED THE CONTROL OF INFORMATION TECHNOLOGY SPENDING

The Department has refined and implemented its system investment review and control process, taking steps to better align IT spending with DoD Business Enterprise requirements. In FY05, the DoD Comptroller withheld significant funds from programs that failed to submit their systems for certification review in FY04. The Comptroller only released the funds to those programs that achieved the required certification. Furthermore, the Comptroller redirected funds, through the budget development process, away from systems that do not comply with BMMP's objectives. The Department will build upon existing review and certification processes using an Overarching Integrated Product Team (OIPT) process.

## IV. PLANS

### A. GOVERNANCE

BMMP's success depends directly on the quality of strategic planning and level of involvement by senior leadership. The Department faces challenges to success – a cultural transformation, better awareness and understanding of the program, and a recognition and appreciation of the benefits that successful business transformation can provide to the warfighting mission. To address these broad challenges, the Department has established the Defense Business Systems Management Committee (DBSMC) as the highest ranking governance body overseeing transformation. DBSMC membership includes:

- Deputy Secretary of Defense (Chair);
- Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) (Vice Chair);
- Secretaries of the Military Departments and the heads of the Defense Agencies;
- Under Secretary of Defense (Comptroller) (USD(C));
- Under Secretary of Defense for Personnel and Readiness (USD (P&R));
- Vice Chairman of the Joint Chiefs of Staff (JCS);
- Commander, U.S. Transportation Command;
- Commander, U.S. Joint Forces Command;
- Assistant Secretary of Defense for Networks and Information Integration/DoD Chief Information Officer (ASD(NII/CIO)); and
- Director, Program Analysis and Evaluation (PA&E) (Advisory).

Additional tiers of program governance are listed below.

#### **Investment Review Boards (IRBs):**

IRBs will be established for each core business mission, with representation from services, components, and combatant commands. They will focus on assessing business mission impact to support warfighting requirements and improving financial accountability.

Comptroller – Chaired by USD-Comptroller designee.

AT&L – Aligned to AT&L Core Business Missions, Chaired by Business Mission Owners designated by the USD-AT&L.

P&R – Chaired by USD-Personnel & Readiness designee.

#### **Component Transformation:**

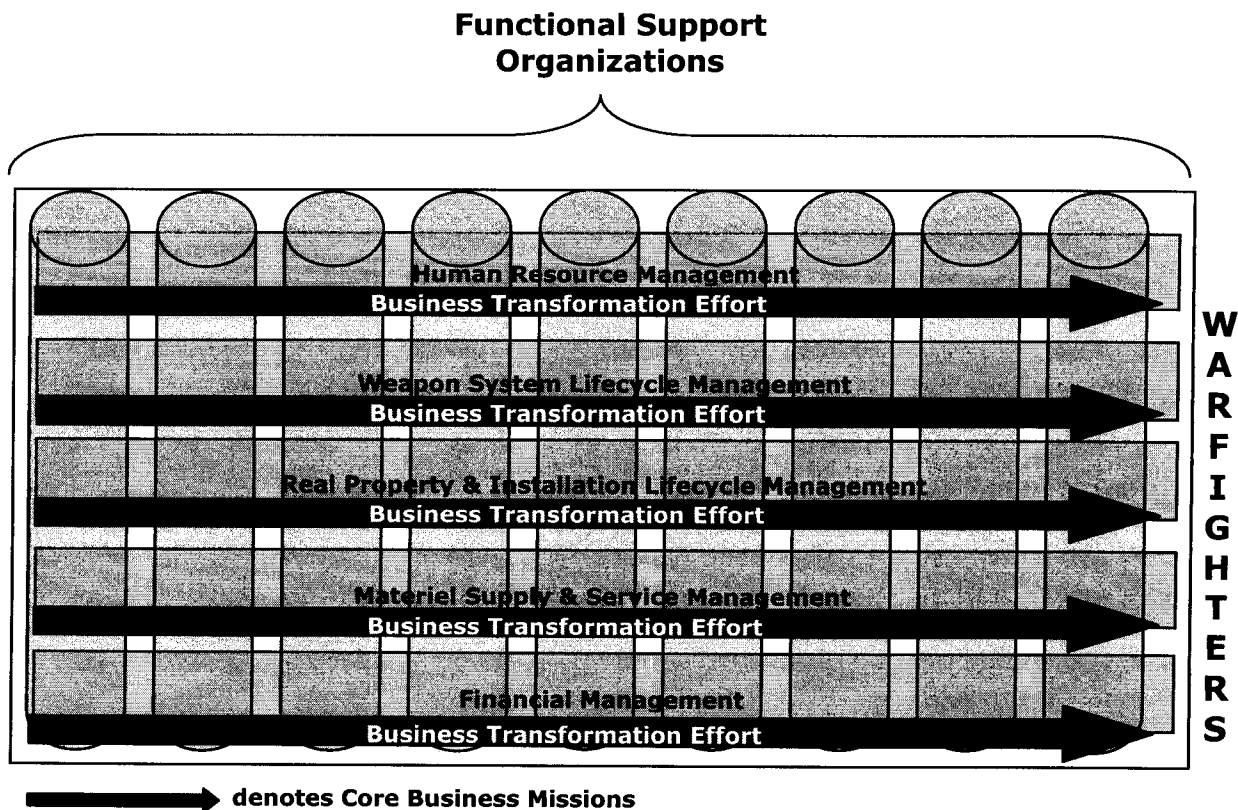
Structure of component transformation efforts will be developed and lead by Component leadership, but must:

- Comply with the DoD Business Enterprise level of the architecture and associated rules and data standards.

- Maintain component level architecture and transition plans, and provide status as required by the BMMP program.
- Comply with statutory requirements for IT investment management, portfolio management and systems inventory reporting.

## B. DEFINING FUTURE CAPABILITIES – BUSINESS MISSION ALIGNMENT

Business system capabilities will be prioritized based upon their alignment with five Core Business Missions (CBM), shown in Figure 1.



**Figure 1: Core Business Missions**

This CBM structure serves several purposes. It provides a framework to align thinking about business transformation to focus on end-to-end business processes that support warfighting missions. The CBM enables each participant in a business function to understand how their activity supports the warfighter. The structure is a useful mechanism to explain, at a very high level, how major modernization programs impact particular business missions. Finally it serves as a base structure for organizational alignment of the BMMP.

Each business mission will be overseen by the appropriate Under Secretary – e.g., AT&L, Comptroller, and Personnel & Readiness. As members of the Defense Business Systems Management Committee, they will incorporate senior flag officer input to establish

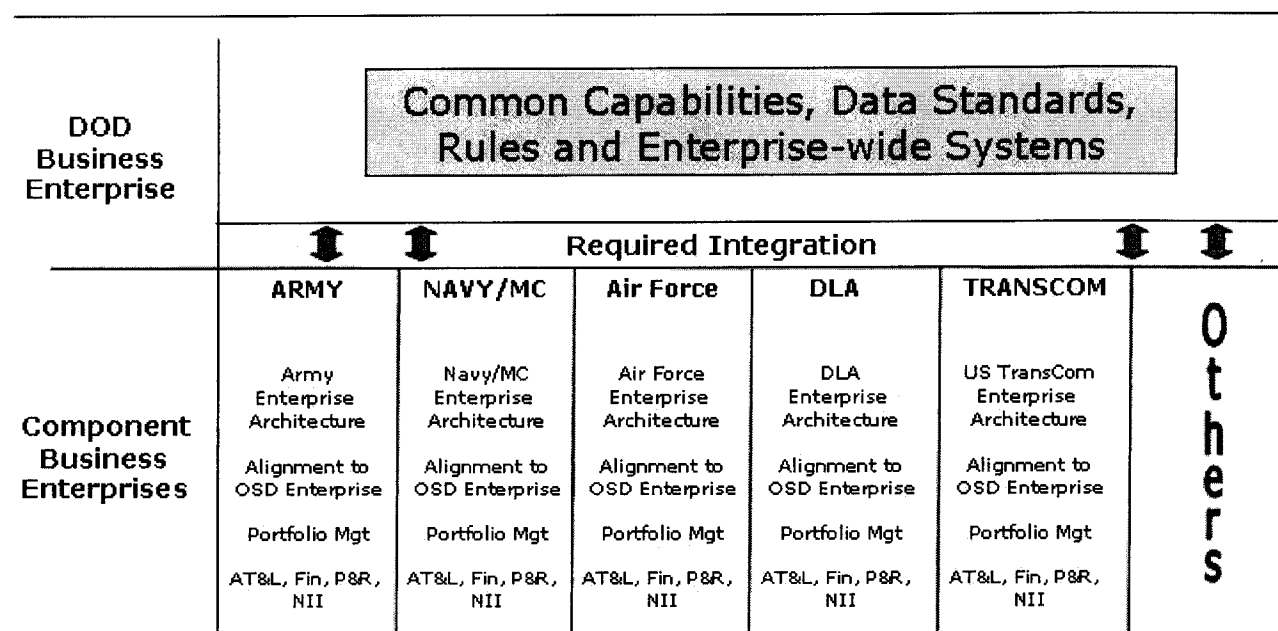


transformation priorities that ensure business capabilities support war-fighting mission requirements, while continuously improving financial accountability.

### C. DOD BUSINESS ENTERPRISE

Defining the DoD business enterprise is a primary objective of the realignment of the BMMP program. In any large organization, effective management of IT spending depends upon enterprise structure. To successfully execute transformation within the DoD, it is critical that we align the effort with the decentralized management structure of the Department.

To address this challenge, we will clearly define the DoD Business Enterprise for the purpose of business transformation management (see figure 2). As war-fighting mission requirements drive the need for greater commonality in business operations, the DoD Business Enterprise can be incrementally expanded using a defined governance process.



**Figure 2: BMMP Transformation Environment**

**DoD Business Enterprise** -- Business capabilities, rules, data standards and operating requirements that are DoD-wide as established by statute, policy, or long-standing practice, and the systems that support those capabilities. It also includes DoD-wide system implementation efforts. The DoD Business Enterprise Architecture (BEA) will incorporate these capabilities, rules and requirements.

**Component Enterprise** -- Capabilities, business rules, and associated systems currently delegated to the services, agencies, and/or combatant commands via policy or long-standing practices. Component architectures will reflect component-specific capabilities, rules and requirements.

As the Department moves to a mode of implementation of DoD business enterprise capabilities, it is critical that we establish necessary managerial focus on DoD-wide programs to ensure that full urgency is applied to achieving stated program deliverables. To support this concept, we are establishing program management focus for DoD Business Enterprise IT systems.

#### D. CONTROL OF INVESTMENTS

Certification of business systems modernization investments over \$1 million must be performed by each of the Under Secretaries of AT&L and P&R, the Comptroller and the Assistant Secretary of Defense for NII for systems falling within their respective business area responsibilities beginning October 1, 2005. Each Investment Review Board will assess modernization investments relative to their impact on end-to-end business process improvements supporting warfighter needs beginning Summer 2005.

Approval Authorities are responsible for the review, approval and oversight of the planning, design, acquisition, deployment, operation, maintenance, and modernization of defense business systems. They are members of the DBSMC and support the Committee by establishing and overseeing the systems investment review process. Further, they incorporate the use of common decision criteria, including standards, requirements, and priorities that result in the integration of defense business systems.

IRBs will report to the Approval Authorities. They will operate under consistent standards, to include: rules and procedures, metrics and reporting processes, and use of the enterprise architecture. Their procedures will align closely with the system acquisition process in order to avoid duplication of effort. Additionally, the process will build on our existing review and certification process for all business system investments exceeding \$1 million.

### V. COMMITMENTS

BMMP is committed to the following:

1. Deployment of DoD Business Enterprise Capabilities
2. Clean Audit as an Affirmation of Clean Processes
3. Disciplined Program Management

**1. Deployment of DoD Business Enterprise Capabilities.** A focus on deploying advanced capabilities that are DoD wide in scope must be the priority of BMMP. System consolidation, although important, is not an objective – it is an outcome of capability-focused transformation. A capabilities-focused approach will naturally lead to systems reduction while maintaining focus on critical transformation objectives. Initial enterprise capabilities will ensure:

- **Enterprise Financial Visibility** – Achieving financial visibility means having immediate access to accurate and reliable financial information in support of financial

accountability and decision-making throughout the Department. Financial information includes planning, budgeting, accounting and cost information.

- **Visibility to Acquisition Programs and Status** – This capability will enable DoD-level review of acquisition programs via access to real time, authoritative, and accurate acquisition program information across the components. This includes support for internal acquisition management oversight and internal and external consolidated reporting responsibilities.
- **Materiel Transaction Visibility** – Within the DoD business enterprise, Materiel Transaction Visibility is enabled via access to central data transaction management hubs. These hubs provide automated addressing capability and intersystem transaction execution between service-specific materiel management and Enterprise Resource Planning (ERP) systems. They enable the Department to access information about materiel flow, transaction status, transaction priority, and other information regarding supply chain execution within and among components.
- **Military Personnel Visibility** – Military Personnel Visibility provides accurate, real-time information regarding the assignment, location, skills, pay, entitlements and status for military personnel. This capability is necessary to support the mission flexibility goals of the Department. Improved personnel visibility will also support more accurate management of financial and other compensation for military service members while enabling better financial planning, accounting and reporting activities.
- **Real Property Accountability** – Real Property Accountability enables accurate inventory data for real property in which the Department of Defense has a legal interest (i.e., owned, leased, foreign, etc.). The capability provides all DoD users of real property information the ability to readily access and roll-up core real property data, (e.g., value, location, status) to support their business or war fighter needs.
- **Common Asset Valuation and Visibility** – Common Asset Valuation is the capability to provide timely, common and proper valuation, capitalization and depreciation schedules for all real and personal property owned by the DoD. This capability will provide acquisition cost visibility at all levels of decision making.
- **Common Supplier Engagement** – Enabling a single face to industry will be achieved via a secure and globally connected set of sourcing capabilities. These capabilities will include policy, processes, organization and business systems related to acquisition requirements management, supplier registration, solicitation posting, vendor selection, contract award, receipt and acceptance, payment, and reporting. These capabilities will allow the Department to act as a single global entity, where desired, in order to take advantage of Department-level economies of scale in sourcing and supplier management.

**2. Clean Audit as an Affirmation of Clean Processes.** Achieving an unqualified audit opinion for the entire Department is a progressive task that will depend on the proper mix of policy, process and systems improvements. The Department's approach for achieving an

unqualified opinion is to create a sustainable audit capability without extraordinary annual costs through a defined, measurable and accountable plan. BMMP will contribute to achieving this goal by ensuring that the Department's business transformation activities create more transparent material and financial processes in support of the warfighting mission. Clean business-driven processes will produce clean audits as a metric of success. The Department's systems transition plan, as compiled by BMMP, will guide audit planning and realistic assumptions about when a clean audit can be achieved.

**3. Disciplined Program Management.** To assure measurable progress in achieving the Department's transformation objective, DoD is formally establishing an Acquisition Category ID Special Interest Program baseline for BMMP. This program baseline prescribes the performance, cost, and schedule targets for the program going forward. This baseline will be used as a managerial and oversight tool by the DBSMC, the Approval Authorities, and individual program managers to allocate resources, manage risk, and measure and report progress. As the Department moves to a mode of implementation of DoD business enterprise capabilities, we will establish necessary managerial focus on DoD-wide systems implementation programs to ensure full urgency is applied to achieving stated program deliverables.

## VI. MILESTONES

During the remainder of this year, BMMP will focus its transformation efforts on the following critical deliverables. All deliverables will contribute to the development of an integrated strategy for the delivery of DoD enterprise capabilities that enhance warfighter support as detailed in the previous section. These deliverables will also support the development of an integrated, business-based plan for achieving a clean audit opinion.

### *Spring 2005*

- Fully organize the roles and mission of the DBSMC
- Stand up Approval Authorities and IRBs
- Implement standard IRB and certification processes
- Approve high priority capabilities for business transformation
- Update the Business Enterprise Architecture (BEA)
- Develop Interim Transition Plan and Program Baseline containing:
  - DoD enterprise-wide initiatives
  - Component Transition Plans for Major Automated Information systems (MAIS) initiatives covering 80% of total system investments
- DBSMC establishes IRBs supporting core business missions

### *Summer 2005*

- Establish the BMMP acquisition strategy for DoD enterprise IT systems
- Establish a streamlined systems certification process based on clear criteria and tiered accountability
- Complete first round of FY06 system reviews by IRBs

### ***Fall 2005***

- Establish program baseline and transition plan for initial capability set
- Implement first increment of BMMP solutions
- Deliver first increment of capability-focused products for DoD-wide implementation (Subsequent increments will be delivered in rolling 6 month intervals)
- Meet the system certification requirements against the BEA through the IRBs and the DBSMC
- Integrate the DoD enterprise-level capability development plan with the financial management strategic plan for achieving sustainable auditability
- Update the BEA addressing the high priority capabilities necessary for continued transformation of DoD business enterprise to include integrated Component-level architectures
- Update Transition Plan and Program Baseline reflecting the critical initiatives necessary to achieve the high priority transformation objectives for the DoD business enterprise

### ***Winter 2005***

- Complete first round of FY06 reviews by IRBs
- Update Program Baseline and Transition Plan Establish second iteration of DoD Business Enterprise transformation capability objectives

## **VII. PERFORMANCE MEASURES**

Each Approval Authority will develop mission-specific measures for their respective core business mission area of responsibility. Additionally, as part of the program management approach, BMMP will develop measures that focus on realization of required DoD Business Enterprise capabilities. We will also establish metrics consistent with the program baseline, to ensure systems are deployed on schedule at cost.

## **VIII. CONCLUSION**

Large corporations such as IBM, GM, Ford Motor Company, Oracle, and others have been actively engaged in business transformation over extended periods of time. IBM, for example, is still transforming its business operations more than ten years after it first began. This protracted length of time suggests that even the most respected, technologically-driven companies achieve business transformation through a series of interim accomplishments. DoD is a massive, multi-tiered enterprise unlike any civilian corporation with respect to size, complexity, and governance. The enterprise itself is a federated assembly of semi-autonomous business units (components) that have their own unique business enterprises and cultures that developed over decades. For DoD, therefore, it is even more important to view business transformation as an incremental process requiring a long-term, continuous effort. To-date, we can say with certainty that we have successfully launched a shift in culture within the Department. Continuous improvement and realignment of this effort will drive rapid implementation of tangible business mission improvements and improved financial accountability to the taxpayers.

While we believe the Department has made progress in its efforts to define initial business enterprise architecture and established foundational knowledge necessary to support business transformation, we now are realigning the operating model of the program, and associated governance structures, to facilitate more rapid implementation activities. This new approach, building on past meaningful accomplishments, will produce meaningful and sustainable results.

DoD is aggressively pursuing those steps necessary to strengthen BMMP governance, as well as applying rigorous program management discipline to achievement of the business transformation goals of the Department. The Department will continue to strengthen control of investment in IT systems, using the revised governance structure of the BMMP to assure that investment in business system modernization has a swift tangible impact on business missions that support warfighting needs.